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AZ CORE COMMISSION
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Arizona Corporation Commission
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APR - 8 2010



RE: Arizona Public Service Company's Application For Modification To The Residential Distributed Energy Incentive (Docket Number E-01345A-09-0338)

Dear Chairman Mayes and Commissioners,

This document is being submitted by a council of industry leaders of the Arizona solar thermal industry called **Solar Thermal Advocacy Council (STAC)**. The committee members are comprised of six long-term solar thermal installers and service companies whose combined time in the solar business in Arizona is over 150 years. This is the core group of solar thermal companies that were started in the early 1980's and modified their businesses to survive the last 25 years by providing sales, installation, and servicing of solar thermal systems.

Solar thermal systems have traditionally yielded a better value for the dollar spent compared to other solar technologies. It is more efficient to save a KWh than to create one. Utility ratepayers' dollars should be spent to yield the greatest value; with limited funding, it only makes sense to get the greatest value for the dollar spent.

Within the Solar Industry the Solar Water Heating (SWH) wing has the longest history with respect to consumer sales. In a well-intentioned but unbridled sprint to conserve energy in the early 80's, it is estimated that over 100,000 SWH systems were installed in Arizona. It was a new technology at that time and, combined with a rush of installations, some problems arose. Those problems were compounded when the incentives driving the installations were suddenly removed. The industry was crippled and there were not enough companies left to handle all the problems in an orderly manner. The SWH industry has learned from that and has advocated an orderly ramp-up of the technology to avoid the problems of the past. A sudden halt of the solar industry today would have the same effect as in the 80's.

Most members of the SWH industry have been deliberate and cautious in the build-up of their businesses and the marketing of their product. This has been reflected in the sales curve seen in the APS UCPP. As long as two years ago, APS forecast to the SWH industry they expected 5000 sales per year. Frankly, most in the industry thought 5000 was a little high, but given the \$40 million plus surcharge money and the incentive levels, we structured our businesses to meet that goal. We had a much better infrastructure than in the early 80's, and 5000 was much less than the 20,000 that were installed per year back then. With the average incentive in the program being about \$2,000 per system, the approximately \$10 million (25% of the fund) seemed reasonable and secure to meet that goal.

The sales of SWH systems in the first quarter of 2010 have been right on the pace of the 5000 systems APS expected for this year. The industry has progressed in an orderly fashion with \$2 million spent in the first quarter for roughly 1000 SWH systems. At this rate, assuming the normal increase of sales for the fourth quarter, we will have yearly sales of 5000. We expect the balance of that money to be there in order to fulfill the goals we adopted from APS expectations. It seems clear the incentive levels and the amount of money needed are the right amounts based on sales rates to date. Our SWH industry is *not* overheated by the current incentive level. The SWH industry has proceeded within the UCPP with measured and mature growth and should not be punished because other parts of the industry are over incentivized.

A significant amount of money has been raised for solar and other renewables through surcharges on all APS ratepayers as was approved by the ACC. With that pool of money these ratepayers have the opportunity to get financial incentives for purchasing various renewable products. However, the upfront cost, and even net cost, of these products excludes possibly up to 90% of those paying the surcharge. Some have characterized this as a regressive tax. The exception to this concern is SWH. The cost of an SWH system at the present level of incentives is only slightly more than the cost of replacement of a standard electric or gas water heater.

To put things in perspective, in the first quarter of 2010 approximately 1000 ratepayers got incentives for SWH systems at a total incentive cost of \$2 million. In comparison about 1500 ratepayers got incentives for Solar Electric/Photovoltaic (PV) totaling \$31 million. It seems clear that most ratepayers can benefit from the current incentive level for SWH, and it is only fair that the option remains available.

The sudden suspension of the APS residential program has created significant and potentially damaging consequences for business. Several weeks before the sudden suspension of the program, APS announced the hiring of an outside marketing firm called Smart Power. Smart Power was introduced to the Solar Industry as a company that was going to help the industry achieve greater residential sales because those sales were not keeping up with the dollars allotted to them.

This message, delivered at an AriSEIA meeting barely three weeks before the suspension of the program, gave a false sense of security to the industry members in attendance. All the

members of **STAC** were caught with many sales that had not been submitted for APS reservations. There was no precedence that reservations needed to be booked immediately upon the sale of a solar system because of a threat of limited funding. This sudden change of events has left the members of **STAC** and many others in the solar industry with huge financial repercussions if the sales are forfeited or if the company has to lose the difference in the new lower utility incentive versus the original incentive. We are asking that a reasonable system be set up to determine that any contract that can be proven to be contracted with the client before the suspension date be honored at the old incentive rate.

To summarize, our requests are:

- Keep the current 75 cents per first year KWh offset in place.
- Set aside a separate amount of money (\$10,000,000 per year) just for solar water heating residential technologies. When that level is reached it would then be a first come, first served, from the general fund.
- Set up a simple system (cancelled checks, credit card receipts or financing paperwork approvals) to determine which contracts were sold before the suspension and honor the old incentive levels.

Thank you for your consideration of these issues.

Very Truly Yours,

Tom Bohner	Sun Systems Inc.
Jim Combs	Conservative Energy
Kelly Dancer	Heliocol (Green Energy)
John Gilchrist	North Canyon Solar
Peter Reed	Pacific West Solar
Mike Donley	Donley Service Center

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